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New Zealand

Wine Annual

New Zealand Wine Report 2010

Approved By:

Laura Scandurra

Prepared By:

Laura Scandurra

Report Highlights:

New Zealand's 2010 grape harvest is just getting underway. Industry estimates put the 2010 vintage on the order of 265,000 to 285,000 tons, which is marginally smaller than the 2009 and 2008 harvests. Total wine production is forecast at approximately two million hectoliters in 2010.

Executive Summary:

The Zealand features ten wine making regions that produce over two million hectoliters of wine, most of which is exported. While this is small by international standards, the grape and wine industry has expanded significantly over the past decade. Grape producing area has tripled from just 10,197 hectares in 2000 to 31,057 hectares in 2009.

New Zealand experienced a record grape harvest of 285,000 tons in 2008, up a massive 40% from the previous year. In the face of global economic downturn, this led to an over supply situation resulting in a decline in grape prices, a surge in bulk wine shipments, excess inventories, and a decline in the average export price.

Growers and wineries recognized that they needed to take dramatic steps to address the new market reality and responded by reducing vineyard yields, particularly in the Marlborough region. This helped keep the 2009 vintage in line with 2008 vintage at 285,000 tons. However, since then, additional vines have come into production and producing area has jumped to an estimated 32,143 hectares.

The nation's 2010 grape harvest is just now getting underway on the North Island. Industry estimates put the 2010 vintage on the order of 265,000 to 285,000 tons, which is marginally smaller than the 2009 and 2008 vintages and reflects some success in managing yields. While the 2010 harvest is running a week or two later than last year in some areas, the prospects for the vintage are reportedly good. However, a successful harvest depends on the weather over the next two months. Total wine production is forecast at approximately two million hectoliters in 2010.

Australia continues to be the leading destination for New Zealand wines accounting for 33% of exports on a value basis in 2009. Followed by the United Kingdom, the United States and Canada, these four markets account for 87% of New Zealand's wine exports. The Netherlands, China, Ireland, Singapore, Hong Kong and Japan round out the top ten markets. While exports to Asia are still small, just 5% of total exports on a value basis, Asian markets have become a key focus for many New Zealand wineries. Sales into Asia were up 30% on a U.S. dollar basis in 2009. China is the leading Asian market for New Zealand wine exports with sales up 73% last year. In the future, New Zealand wine sales to China will no doubt be aided by the New Zealand-China Free Trade Agreement, which came into force in 2008. New Zealand wine will enter the Chinese market duty-free by 2012.

While imports have been stagnant, or falling, there is scope for increased exports of U.S. wines to the New Zealand market, particularly varietals such as Zinfandel and Cabernet Sauvignon.

The New Zealand wine industry aims to be the first in the world to be 100% sustainable. The Sustainable Winegrowers New Zealand (SWNZ) program, which was introduced in 1995, is a framework of industry standards set up to achieve this by vintage 2012. The more than 510 vineyards and 85 wineries that have signed on to the SWNZ program practice industry-accredited sustainable cultivation and production procedures.

Looking forward, many in the industry believe that it will take several years to correct the supply/demand imbalance and that grape prices will continue to reflect the realities of the market. While the New Zealand wine industry has enjoyed considerable success over the last several years, the current economic climate combined with a significant increase in planted area, has brought the New Zealand wine industry to a new crossroads. Rather than a supply shortage, the major challenge facing the industry is how to manage additional production potential while maintaining its niche position as a supplier of premium quality wines to world markets.

Commodities:

Wine

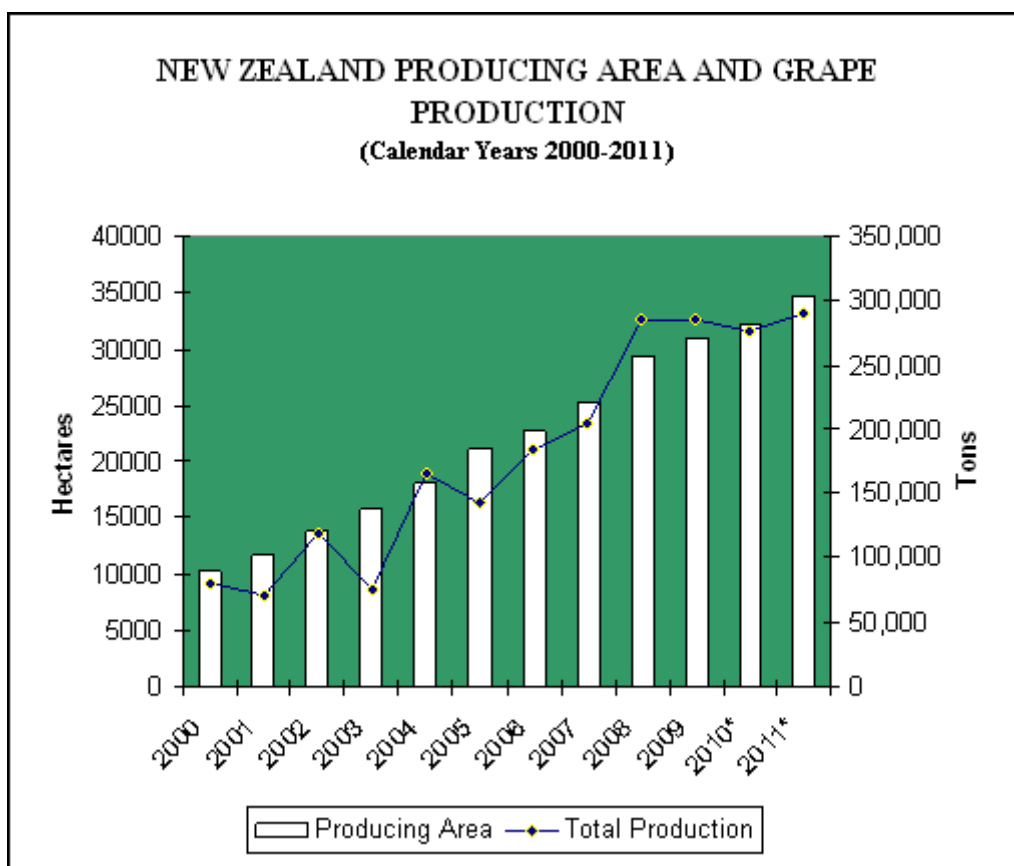
Production:

NEW ZEALAND WINE PRODUCTION: A SNAPSHOT										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of Wineries	358	380	398	421	463	516	530	543	585	643
Producing Area (Hectares)	10,197	11,648	13,787	15,800	18,112	21,002	22,616	25,335	29,310	31,057
Average Yield (Tons per hectare)	7.8	6.1	8.6	4.8	9.1	6.9	8.2	8.1	9.7	9.2
Average Grape Price (NZ\$ per ton)	1,153	1,441	1,634	1,929	1,876	1,792	2,022	1,981	2,161	1,640
Tons Crushed	80,100	71,000	118,700	76,400	165,500	142,000	185,000	205,000	285,000	285,000
Total Production (Hectoliters)	602,000	533,000	890,000	550,000	1,192,000	1,020,000	1,332,000	1,476,000	2,052,000	2,052,000

Source: New Zealand Wine Growers

Producing Area/Grape Production: In New Zealand, grape producing area has tripled from just 10,197 hectares in 2000 to 29,310 hectares in 2008 and 31,057 hectares in 2009. The increase in acreage led to a record grape harvest of 285,000 tons in 2008, up a massive 40% from the previous year. In the face of the global economic downturn, this led to an over supply situation resulting in a decline in grape prices, a surge in bulk wine shipments, excess inventories, and a decline in the average export price.

Growers and wineries recognized that they needed to take dramatic steps to address the new market reality and responded by managing grape yields, particularly in the Marlborough region. This helped keep the 2009 vintage in line with 2008 vintage at 285,000 tons. However, since then, additional vines have come into production and producing area jumped in 2010 to an estimated 32,143 hectares



Source: New Zealand Wine Growers

* Denotes forecast

The nation's 2010 grape harvest is just now getting underway on the North Island. Industry estimates put the 2010 vintage on the order of 265,000 to 285,000 tons, which is marginally smaller than the 2009 and 2008 vintage and reflects successful efforts to manage yields. While the 2010 harvest is running a week or two later than last year in some areas, the prospects for the vintage are reportedly good. However, a successful harvest depends on the weather over the next two months.

Forecast NZ Wine Producing Area, Grape Production and Wine Production			
Year	Producing Area	Grape Production	Wine Production
2010	32,143 hectares	265,000 to 285,000 tons	2 million hectoliters
2011	34,739 hectares	285,000 to 295,000 tons	2.05 million hectoliters

Prices: After the record 2008 harvest, most wineries tightened up grower contracts. Some growers that had previously taken advantage of high prices by selling on the spot market were unable to find buyers. The average price for sauvignon blanc grapes in the Marlborough region in 2008, which was NZ \$2,363, stands in stark contrast to prices being offered in 2010. According to press reports, contract growers are currently being offered about NZ \$1,200 per ton for sauvignon blanc grapes in the

Marlborough region, but reports have varied widely with some growers being offered as little as NZ \$600 per hectare and others as much as NZ \$1,600 with a yield cap of 9.6 tons per hectare. Price determining factors include, among others, the number of tons harvested per hectare, the degrees of brix, and the percentage of rot. Suggestions indicate that, for the first time, a key negotiating factor in 2010 will be yield caps. Some Marlborough growers have suggested that the breakeven point for many growers is NZ \$1,200 per ton with a yield cap of 12 tons per hectare.

Wine Production: Total 2010 wine production is forecast to be on par with 2009 production at two million hectoliters, but up significantly from the 602,000 hectoliters produced just ten years ago in 2000.

Outlook: Looking forward, many in the industry believe that it will take several years to correct the supply/demand imbalance and that grape prices will continue to reflect the realities of the market. While the New Zealand wine industry has enjoyed considerable success over the last several years, the current economic climate combined with a significant increase in planted area, has brought the New Zealand wine industry to a new crossroads. Rather than a supply shortage, the major challenge facing the industry is how to manage additional production potential while maintaining its niche position as a supplier of premium quality wines to world markets.

Wine producing area is forecast to expand to 34,739 hectares in 2011, which depending on vine management, weather conditions and other factors, would put the grape crop at between 285,000 and 295,000 tons and wine production at approximately 2.05 million hectoliters, up marginally from 2010.

Sauvignon Blanc: Sauvignon blanc constitutes the single most important variety produced in New Zealand. At 14,735 hectares in 2009, this varietal accounts for nearly half of the producing area. Vineyard area planted to sauvignon blanc has increased significantly over the past several years jumping 33% in 2008 and just over 5% in 2009. Estimates by the New Zealand wine growers indicate that area planted to Sauvignon Blanc, which is under pressure from over supply, will hold relatively steady in 2010 and increase by an estimated 3% in 2011.

While known for Sauvignon Blanc, New Zealand is increasingly producing a range of varietals, including pinot noirs from both the North and the South Islands.

NEW ZEALAND PRODUCING VINEYARD AREA BY GRAPE VARIETY (Hectares)										
	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Sauvignon Blanc	3685	4516	5897	7277	8860	10491	13988	14735	14844	15383
Pinot Noir	2029	2624	3239	3757	4063	4441	4650	4702	4753	4824
Chardonnay	3427	3515	3617	3804	3779	3918	3881	3915	3929	3938
Merlot	1077	1249	1487	1492	1420	1447	1383	1367	1371	1386

Riesling	529	653	666	811	853	868	917	928	934	940
Pinot Gris	232	316	381	489	762	1146	1383	1460	1495	1511
Cabernet Sauvignon	745	741	687	614	531	524	516	517	517	519
Other	2063	2186	2138	2758	2348	2520	2592	3433	4300	6238
Total	13787	15800	18112	21002	22616	25355	29310	31057	32143	34739

*Estimates

Source: New Zealand Wine Growers

NEW ZEALAND VINTAGES BY GRAPE VARIETY (Tons)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sauvignon Blanc	15472	20826	36742	28266	67773	63297	96686	102426	169613	177647
Chardonnay	23593	1067	33883	15534	35997	29741	26944	38792	33346	34393
Pinot Noir	6319	8015	10402	9402	20145	14578	22062	20699	32878	27547
Merlot	4090	2573	6502	4957	9330	9194	11206	11714	10166	11723
Pinot Gris	572	747	1214	836	1888	1655	3675	6053	12417	11410
Riesling	4070	4377	5038	3376	5647	4792	6745	6017	8547	6316
Cabernet Sauvignon	3792	2782	4375	3201	4045	3018	2659	2462	2270	2304
Other	22192	30613	20544	10828	20675	15725	15023	16837	15763	13660
Total	80100	71000	118700	76400	165500	142000	185000	205000	285000	285000

Source: New Zealand Wine Growers

Consumption

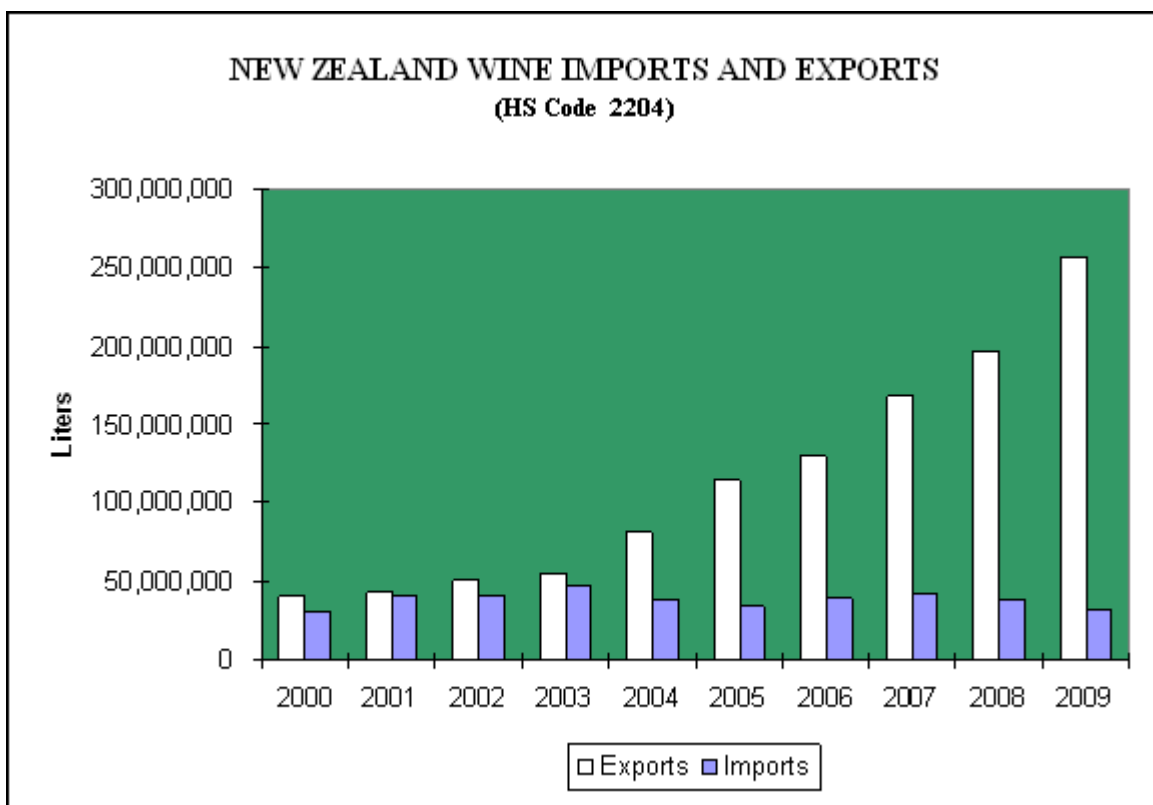
While the total volume of wine consumed in New Zealand dipped slightly in 2008, it rebounded to a record level in 2009 hitting 92.3 million liters. This brought about a 28% increase in consumption of local wine. As a percentage of total sales, New Zealand wines jumped from 53% in 2008 to 65% in 2009.

NEW ZEALAND WINE CONSUMPTION										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic sales of NZ wine (millions of liters)	41.3	36.2	32.6	35.3	35.5	45	50	51	46.5	59.7
Total sales of all wine in NZ (millions of liters)	66.2	66.6	68.3	74.5	79.7	81.7	86	91.8	87.4	92.3
NZ wine as a percentage of domestic sales	62%	54%	48%	47%	46%	55%	58%	56%	53%	65%
Consumption per capita of NZ	10.8	9.3	8.2	8.8	8.8	11.2	12.1	12.2	11.1	13.9

wine (liters)										
Consumption per capita of all wines in NZ (liters)	17.3	17.3	17.4	18.5	19.6	19.8	20.6	21.7	20.8	21.4

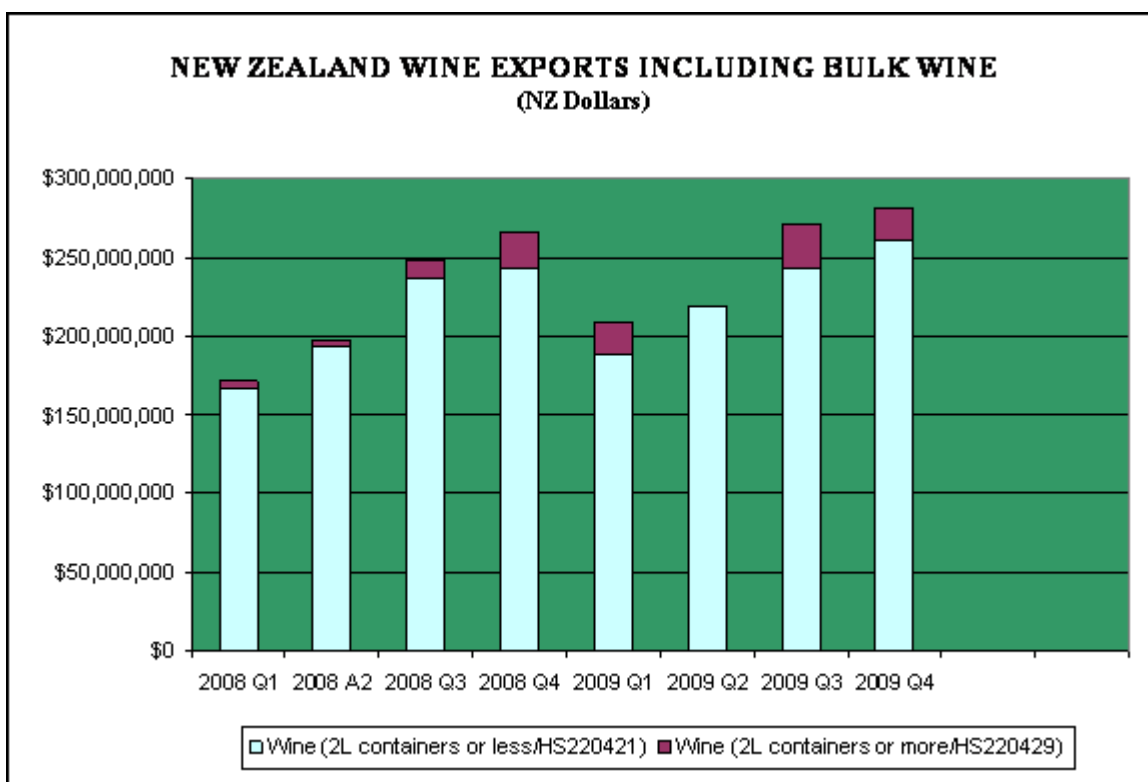
Trade

Wine is one of New Zealand's fastest growing exports. Over the past 20 years, it has grown at nearly 24% per year, compared to just 5.9% for all merchandise exports.



Source: Global Trade Atlas

Since the bumper crop in 2008, a key concern for the New Zealand wine industry has been the increase in exports of bulk wine on the international market. Many in the industry are concerned that the increase in bulk wine exports, which are generally sold under brands owned by retailers, risks devaluing the country's reputation as a top-quality wine producer.



Exports: Australia continues to be the leading destination for New Zealand wines accounting for 33% of exports on a value basis in 2009. Together with the United Kingdom (28%), the United States (21%) and Canada (5%), these four markets account for 87% of New Zealand's wine exports. The Netherlands, China, Ireland, Singapore, Hong Kong and Japan round out the top ten markets.

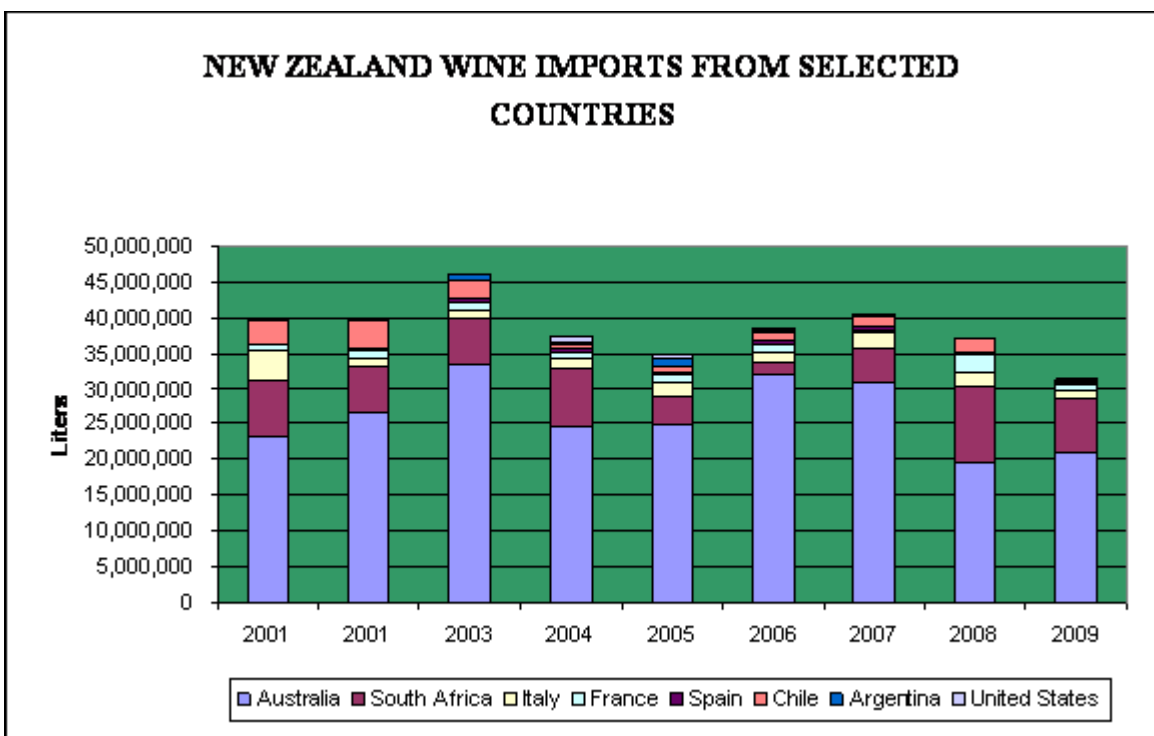
While exports to Asia are still small, just 5% of total exports on a value basis, Asian markets have become a key focus for many New Zealand wineries as they seek to grow their business beyond the traditional markets. Sales into Asia were up 30% on a U.S. dollar basis in 2009. China is the leading Asian market for New Zealand wine exports with sales up 171% last year. In the future, New Zealand wine sales to China will no doubt be aided by the New Zealand-China Free Trade Agreement that came into force in 2008. As described in the policy section below, Chinese tariffs on New Zealand wine exports will be duty free by 2012.

Sauvignon Blanc is New Zealand's most important wine export varietal followed by Pinot Noir and Chardonnay.



Source: Global Trade Atlas

Imports: While imports have been stagnant, or falling, there is scope for increased exports of U.S. wines, particularly varietals such as Zinfandel and Cabernet Sauvignon.



Source: Global Trade Atlas

Policy

China FTA: The New Zealand and China Free Trade Agreement came into force on October 1, 2008. As indicated in the table below, tariffs on wine from New Zealand will be eliminated by 2012. By contrast, U.S. wine exports to China will continue to be assessed the base rate shown below. China ranks as New Zealand's sixth largest market for wine exports.

Tariff Rates for New Zealand Exports to China								
HS Code	Description	Base Rate	2008	2009	2010	2011	2012	2013
22042900	Wine (not sparkling); grape must with alcohol in: ≥ 21 containers	20	16	12	8	4	free	free
22042100	Wine (not sparkling); grape must with by alcohol in: ≤ 21 containers	14	11.2	8.4	5.6	2.8	free	free
22041000	Champagne & sparkling wine	14	11.2	8.4	5.6	2.8	free	free
22043000	Other grape must, nes	30	20	16	12	8	4	free

Source: New Zealand Government

TransPacific Partnership Agreement: The Obama Administration announced on November 14, 2009 that the United States will engage with the Trans-Pacific Partnership (TPP) countries “with the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a 21st century trade agreement”. While the negotiation is of interest to New Zealand as a route to a more open trade relationship with the US, from a larger perspective, its greatest potential is as a pathfinder for wider regional economic integration.

The Trans-Pacific Strategic Economic Partnership Agreement (TPP, previously known as ‘P4’) between Brunei Darussalam, Chile, New Zealand and Singapore was signed in 2005. The first round of negotiations to expand the TPP to include the United States, Australia, Peru and Vietnam is scheduled to take place in March 2010.

New Zealand Winegrowers, which provides the strategic leadership for New Zealand grape growers and wine makers, is supportive of the TPP. New Zealand wine exports to the United States are currently valued at US \$135 million. The United States is New Zealand's third largest export market after Australia and the United Kingdom. Wine is New Zealand's sixth biggest export to the United States and New Zealand is one of the top ten suppliers of imported wine to the U.S. market. With an average FOB price of NZ \$9.52 per liter, New Zealand wine is in the higher price bracket of wine sold in the United States.

The United States applies an import duty of 6.3 cents per liter to wine (of alcoholic strength by volume not over 14%/HS 2204.21.40). New Zealand will likely seek a reduction or elimination of this tariff in the TPP negotiations, especially because New Zealand's competitors – Australia and Chile – have

already signed FTAs with the United States. In addition to a reduction in the tariff, New Zealand Winegrowers have called for steps to streamline customs and import procedures for New Zealand products. Generally, the New Zealand Winegrowers see the TPP as potentially giving New Zealand wines preferential access to the U.S. market and a potential platform for enhancing the non-tariff market access conditions for New Zealand goods into the United States.

Sustainability: The New Zealand wine industry aims to be the first in the world to be 100% sustainable. The Sustainable Winegrowers New Zealand (SWNZ) program, which was introduced in 1995, is a framework of industry standards set up to achieve this by vintage 2012. The more than 510 vineyards and 85 wineries that have signed on to the SWNZ program practice industry-accredited sustainable cultivation and production procedures.

SWNZ provides a framework for companies to improve their performance in terms of environment, social, and economic sustainability, in both the vineyard and the winery. Members of the program, which now includes more than 80% of winegrowers in New Zealand, must adhere to "best practice" in the vineyard and winery and all wine must be produced under independently-audited schemes.

Only winegrowers that comply with the program are able to participate in key industry events like the London Annual Trade Tasting and the Air New Zealand Wine Awards.

SWNZ is currently developing a database and set of management tools to help identify key production issues and help individual growers develop complete environmental management systems.

Some industry participants are advocating the creation of an instantly recognizable logo that stamps every qualifying bottle as being sustainably produced in New Zealand, and following through with a promotion campaign so that consumers in markets around the world respond with willingness to pay premium prices for sustainably produced New Zealand wines.

Appendix I. Customs, Levies and Tax Information

Tariffs and Taxes on Wine Imports into New Zealand (New Zealand Dollars)					
Description	HS Code	Tariff (1/2007)	Tariff (7/2008)	Excise Tax	ALAC levy *
Sparkling Wine, Consumer Packaged	2204.1	7%	5%	\$2.5476/L	5.02c/L
White and Red Wine, Consumer Packaged	2204.21.18	7%	5%	\$2.5476/L	5.02c/L
Further Manufacture	2204.29.18	7%	5%	\$2.5476/L	5.02c/L
	2204.xx	7%	5%	\$0	-
Fortified	2204.xx	7%	5%	\$46.400/L al	8.22c/L

Source: New Zealand Customs Working Tariff Document

Note: The tariffs on wine were lowered as of July 1, 2008. The excise taxes for imports are equal to those placed on domestically produced wine. Taxes listed here are a guide only. See Appendix II for the New Zealand Customs website. 'L' is per liter of product, while 'L al' is per liter of alcohol in each product. Product for further manufacture has an excise tax placed on it when the final product is sold to retailers.

* Alcoholic and Liquor Advisory Council (ALAC) Levy

Excise Tax: In New Zealand, the excise tax is charged to the importer or wholesaler when the product is sold to the retailer. Imported product that is moved to a licensed manufacturing area for further manufacture is not assessed the excise tax until after the manufacturing process is completed and it is sold to the retailer in a consumer packaged form.

The excise tax levied on wine is seen as having a negative impact on the wine industry, particularly as it affects the profitability of smaller wineries. The New Zealand system contrasts with Australian regulations where the first AU \$500,000 of excise tax is refunded each year.

Goods and Services Tax (GST): With few exceptions, goods imported and sold in New Zealand are liable for a Goods and Services Tax (GST) of 12.5%.

Import Entry Transaction Fee: An Import Entry Transaction Fee of NZ \$25.38 (GST inclusive) is payable on every commercial import entry and import declaration for goods with a duty and GST liability of \$50 or more. This fee includes a biosecurity risk screening levy of NZ \$3.38 collected by Customs on behalf of the Ministry of Agriculture and Forestry (MAF). The fee is collected at the same time as duty and/or GST.

Appendix II. Further Information

Wine/vineyard statistics are at:

<http://www.nzwine.com/statistics/>

MAF Horticulture forecasts

<http://www.maf.govt.nz/mafnet/rural-nz/>

Carbon Footprint Calculator

www.nzwine.com/swnz/publications.html

Australia New Zealand Food Standards Code

<http://www.foodstandards.gov.au/thecode/foodstandardscode.cfm>

New Zealand Customs Working Tariff Document:

<http://www.customs.govt.nz/library/Working+Tariff+of+New+Zealand/Section+IV/default.htm>

Alcohol and Liquor Advisory Council (ALAC) Levy

<http://www.customs.govt.nz/importers/Commercial+Importers/Duties+and+Levies.htm>

Alcohol and Liquor Advisory Council

<http://www.alac.govt.nz/>

New Zealand Food Safety Authority

<http://www.nzfsa.govt.nz/wine/index.htm>

Wine Act (2003)

<http://www.legislation.govt.nz> (see under statutes)

Working Tariff Document

<http://www.customs.govt.nz/library/Working+Tariff+of+New+Zealand/default.htm>